

Message Text

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C O N F I D E N T I A L BONN 03342

E.O. 11652: GDS

TAGS: ECON, ETRD, EALR, GW, GE

SUBJECT: FRG-GDR ECONOMIC RELATIONS

REF: BONN 2523

1. ECON MINISTRY DEPUTY ASSTSEC AND HEAD OF THE INTERZONAL TRADE OFFICE, KLEINDIENST, BRIEFED EMBASSY ECONCOUNSELOR ON THE CURRENT STATE OF FRG-GDR ECONOMIC RELATIONS WHICH FALL WITHIN THE ECONMINISTRY'S PURVIEW. HE EXPRESSLY EXCLUDED NEGOTIATIONS ON THE

GDR PACKAGE (BONN 2523) IN WHICH THE ECONMINISTRY IS NOT DIRECTLY INVOLVED.

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2. KLEINDIENST SAID THAT HE IS AT PRESENT ACTIVELY

ENGAGED IN NEGOTIATIONS OVER A FRAMEWORK AGREEMENT (RAHMENVERTRAG) WITH THE GDR WHICH IS TO ENABLE THE CONCLUSION OF TWO COOPERATION AGREEMENTS BETWEEN THE GDR AND THE FRG FIRMS KRUPP AND HOECHST FOR THE CONSTRUCTION OF A STEEL COMPLEX BY THE FORMER AND A PVC PLANT BY THE LATTER. THE FRAMEWORK AGREEMENT WOULD INCREASE THE FRG'S PRESENT LIMIT ON CREDIT GUARANTEES AND WOULD BROADEN THE DEFINITION OF "INVESTMENT GOODS" FOR THE PURPOSE OF COVERAGE BY SUCH CREDITS. ACCORDING TO KLEINDIENST, THE GDR, MOTIVATED BY A DESIRE TO REGISTER PROGRESS IN FRG-GDR RELATIONS, IS PRESSING FOR THE CONCLUSION OF THE FRAMEWORK AGREEMENT IN MARCH. KLEINDIENST, HOWEVER, WAS SKEPTICAL WHETHER THE REQUIRED INTRA-GOVERNMENTAL CLEARANCE COULD BE COMPLETED WITHIN SUCH A SHORT TIME. HE ADDED THAT THE FRG WOULD NOT BE RUSHED.

3. OTHER QUESTIONS THAT WILL STILL REQUIRE RESOLUTION, AFTER THE FRAMEWORK AGREEMENT IS CONCLUDED, ARE:

A) AN UNDERSTANDING ON THE MODALITIES FOR REPAYMENT TO THE FRG FIRMS IN EXPORTS OF AGREED GDR PRODUCTS (BOTH KRUPP AND HOECHST REFUSE TO TAKE PAYMENT IN PRODUCTS FROM THE PLANTS TO BE CONSTRUCTED BY THEM); B) AGREEMENT ON THE LICENSING AND EXCHANGE OF TECHNICAL KNOW-HOW; C) POSSIBLE AGREEMENT BETWEEN THE FRG FIRMS AND THEIR GDR COUNTERPARTS ON JOINT VENTURES IN THIRD COUNTRIES.

4. COMMENTING ON THE PROSPECTS FOR FRG-GDR TRADE IN 1975-76, KLEINDIENST SAID THAT HE ANTICIPATES VIRTUALLY NO GROWTH IN REAL TERMS, ONLY NOMINAL GROWTH ACCOUNTED FOR BY PRICE INFLATION. (REAL GROWTH IN 1974 OVER 1973 WAS ABOUT 10 PERCENT AGAINST NOMINAL GROWTH OF 20 PERCENT). HE SAID THAT THE GDR IS NOW OBLIGED TO PAY CONSIDERABLY HIGHER PRICES FOR IMPORTED CRUDE FROM THE USSR AND FOR OTHER RAW MATERIALS, WITHOUT THE POSSIBILITY FOR

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COMPENSATING FULLY THESE HIGHER COSTS THROUGH CORRESPONDING INCREASES IN THE PRICES OF ITS EXPORTS. THIS DETERIORATION IN THE GDR'S TERMS OF TRADE, KLEINDIENST ASSERTED, WILL HAVE A SIGNIFICANT DEPRESSING EFFECT ON BOTH THE GDR ECONOMY AND ITS EXPORTS.

5. COMMENT: IT IS KLEINDIENST'S LAST COMMENT (REGARDING ECONOMIC TROUBLES AHEAD FOR THE GDR

RESULTING FROM A SHIFT IN ITS TERMS OF TRADE) RATHER
THAN HIS EARLIER REMARK THAT THE GDR IS
MOTIVATED BY A DESIRE TO REGISTER PROGRESS IN INNER-
GERMAN RELATIONS, WHICH SEEMS TO US TO ACCOUNT FOR
GDR'S PRESSING FOR EARLY CONCLUSION OF THE
RAHMENVERTRAG.
HILLENBRAND

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